



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: November 19, 2024

Subject

City Manager's First Quarter Financial Report for Fiscal Year (FY) 2024-25

Recommended Action

- A. Accept the City Manager's First Quarter Financial Report for Fiscal Year 2024-25; and
- B. Adopt Resolution No. 24-XXX approving Budget Modification No. 2425-367, increasing appropriations by \$331,128 fund by unassigned fund balance.

Executive Summary

The First Quarter Financial Report for FY 2024-25 outlines the City's financial status as of September 30, 2024. The FY 2024-25 Amended Budget is \$217.4 million, increasing from an adopted budget of \$146.6 million due to carryovers and encumbrances from the last fiscal year, in addition to Council-approved budget adjustments.

In FY 2023-24, revenues were lower than budgeted, primarily due to the carryover of Vallco Town Center revenues. Positive variances were noted in use of money and property and property tax. Expenditures were also lower than budgeted across all expense categories, driven by savings in salaries and benefits, materials, contract services and Capital Outlays.

As of the first quarter of FY 2024-25, revenue was \$6.1 million, or 35% lower than last year, due to decreases in sales and transient occupancy tax. This primarily due to a shift to cash basis accounting for interim reports as recommended by the City's financial auditors The Pun Group. While this change enhances cash flow accuracy, it may limit comparability with FY 2023-24. The decrease mainly impacts sales tax. These decreases are discussed further in the First Quarter Update, General Fund section.

City staff is recommending \$331,128 in budget adjustments. These adjustments represent either final budget clean up items, or new items that materialized after budget adoption. These have been separated from adjustments related to the One-time Funds Allocation Plan item in that these recommendations would be made regardless of if the City had uncommitted the sales tax repayment reserve.

Reasons for Recommendation

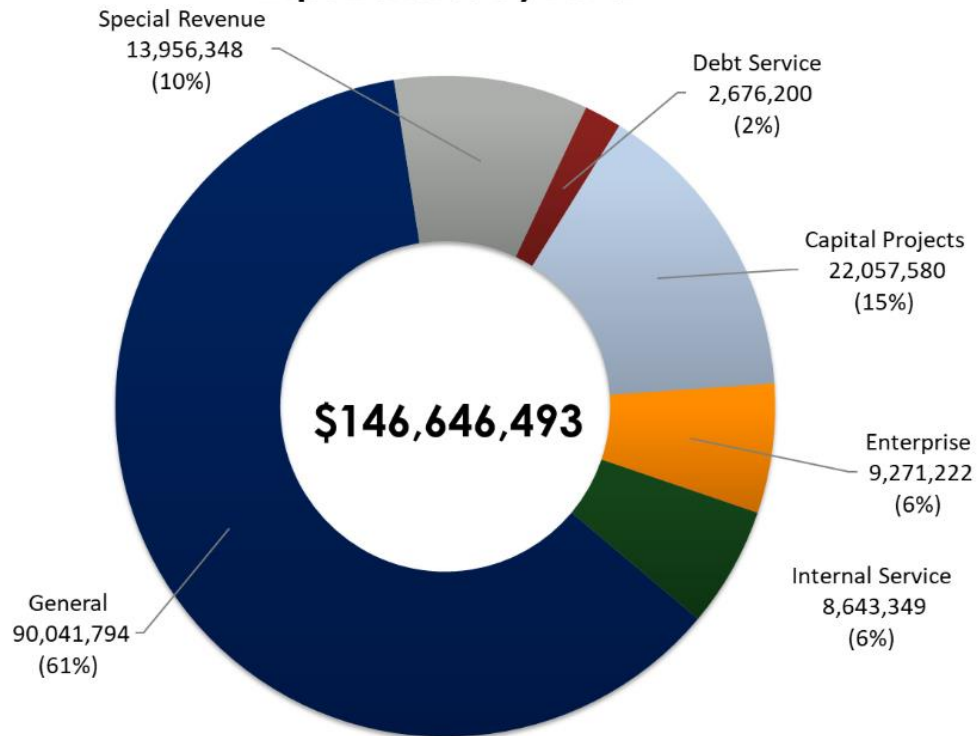
The First Quarter Financial Report, as of September 30, 2024, is a critical tool for the City to evaluate its current revenue outlook and make necessary adjustments to the budget in response to changing spending priorities. It provides an overview of the City's budget status, including its revenue outlook, expenditure patterns, and other key financial metrics. Additionally, the report helps the City stay on track toward achieving its goals and objectives by providing valuable insights into the City's financial performance. By using this information to make informed decisions and take appropriate actions, the City can maintain its fiscal sustainability.

Background

On June 4, 2024, the City Council adopted the FY 2024-25 Adopted Budget, a \$146.6 million spending plan funded by \$139.3 million in revenue and \$7.3 million in fund balance. The adopted budget reflected a \$102,805 increase from the proposed budget as illustrated below.

Budget Actions	Amount
Proposed Budget & Capital Improvement Program (Including Transfers)	\$ 146,543,688
Final Budget Hearing & Adoption Operating Changes	102,805
FY 2024-25 Adopted Budget	\$ 146,646,493

FY 2024-25 Adopted Budget Expenditures by Fund



As part of the FY 2023-24 year-end close, additional funds were carried forward to FY 2024-25, amounting to \$9.0 million in encumbrances and \$61.1 million in budget carryovers.¹ The largest encumbrances were for General Fund (\$4.8 million), and the largest carryovers were for General Fund (\$24.3 million). Furthermore, the FY 2024-25 Amended Budget includes Council-approved budget adjustments from July 1 to September 30, 2024, totaling \$678,707. Please refer to Attachment C for details on the carryovers.

As a result of these budget adjustments, encumbrances, and carryovers, the amended budget at the end of the first quarter is \$217.4 million, funded with \$175.0 million in revenue and \$42.4 million in fund balance. The reflection of carryovers and encumbrances in the amended budget

¹ Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Budget carryovers are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved.

is a standard practice in municipal budgeting and aligns with the amounts in previous years, which have been approximately \$80 million. Carryovers and encumbrances are appropriations approved in prior years but have not yet been spent.

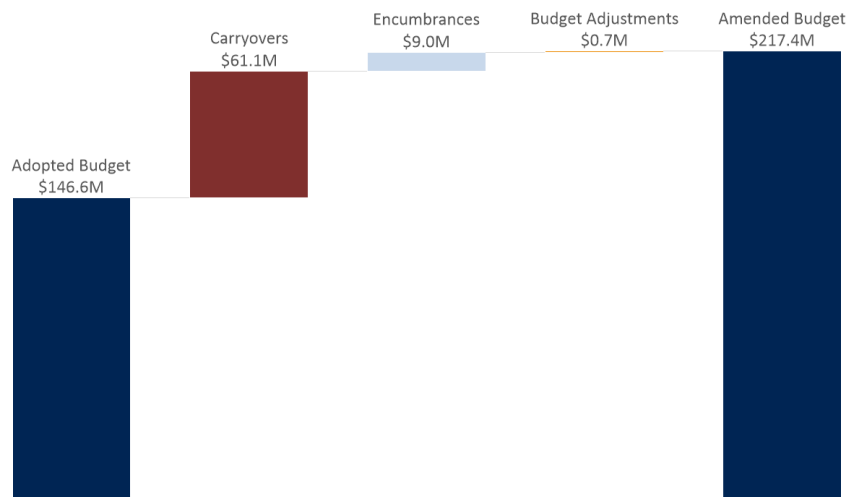
The budget adjustments are summarized in the chart below.

First Quarter Financial Report Summary of Budget Adjustments by Fund

Fund	FY 2024-25 Adopted Budget			Adjustments Approved in 1st Quarter	FY 2024-25 Amended Budget as of September 30, 2024
	Budget	Carryovers	Encumbrances		
General	90,041,794	24,271,306	4,753,530	78,707	119,145,337
Special Revenue	13,956,348	15,445,956	885,056	300,000	30,587,360
Debt Service	2,676,200	-	-	-	2,676,200
Capital Projects	22,057,580	20,678,417	2,449,854	300,000	45,485,851
Enterprise	9,271,222	522,360	55,396	-	9,848,978
Internal Service	8,643,349	151,167	837,023	-	9,631,539
Total All Funds	\$ 146,646,493	\$ 61,069,206	\$ 8,980,859	\$ 678,707	\$ 217,375,265

As shown in the following chart, the amended budget is the adopted budget, plus encumbrances, budget carryovers, and Council-approved budget adjustments. The reflection of encumbrances and budget carryovers in the amended budget is a standard practice in municipal budgeting and aligns with the amounts in previous years. Encumbrances and budget carryovers are appropriations approved in prior years that have not yet been spent and are still required for ongoing projects or obligations.

FY 2024-25 Amended Budget as of September 30, 2024



Please refer to Attachment C for detailed descriptions of the budget adjustments.

FY 2023-24 Year End Update

Revenues

The city is expected to end FY 2023-24 with total revenues of \$147 million, \$26.5 million less than budgeted, primarily due to the carryover of Vallco Town Center plan check, building inspection, and engineering revenues. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized. Additionally, revenues are less than budgeted due to Housing Mitigation fees and an outstanding reimbursement request from the Section 115 OPEB Trust for retiree health expenses in FY 2021-22 and FY 2022-23, as is further explained in the table and miscellaneous revenues section below.

FY 2023-24 Year End Actuals versus Amended Budget by Revenue Category

Revenue Category	Amended Budget	Actual	Variance (\$)	Variance (%)
05 - Sales tax	30,811,262	30,961,166	149,904	0%
10 - Property tax	31,736,834	33,036,853	1,300,019	4%
15 - Transient occupancy	7,500,000	6,486,798	(1,013,202)	-14%
20 - Utility tax	4,100,000	3,935,917	(164,083)	-4%
25 - Franchise fees	3,443,574	4,313,669	870,095	25%
30 - Other taxes	6,305,547	1,970,611	(4,334,936)	-69%
35 - Licenses and permits	34,012,361	4,412,057	(29,600,304)	-87%
40 - Use of money and property	3,762,886	14,948,528	11,185,642	297%
45 - Intergovernmental revenue	8,699,703	6,965,150	(1,734,553)	-20%
50 - Charges for services	26,074,859	23,958,699	(2,116,160)	-8%
55 - Fines and forfeitures	408,563	419,148	10,585	3%
60 - Miscellaneous	3,916,556	3,224,519	(692,037)	-18%
65 - Transfers in	12,207,553	12,210,622	3,069	0%
70 - Other financing sources	483,779	157,787	(325,992)	-67%
Total	\$ 173,463,477	\$ 147,001,525	\$ (26,461,952)	-15%

Sales Tax revenue remained relatively the same as budgeted. The City budgets revenues conservatively and anticipated a reduction in online sales as the pandemic waned.

Sales tax revenue is derived from five primary economic categories, including business-to-business, state and county pools, restaurants and hotels, general consumer goods, and fuel and service stations. County pool revenue is based on the City's share of direct sales tax in the County. As a result, when sales tax fluctuates, the City's share of the County pool adjusts proportionally.

Nonetheless, revenue for FY 2023-24 was still significantly lower than in previous years due to a shift from online to in-store shopping. The negative impacts of the sales tax reallocation determination do not appear in FY24 as described later in this section. The COVID-19 pandemic had a substantial impact on the City's sales tax revenues from FY 2019-20 to FY 2021-22. Notably, certain sectors, including business-to-business sales tax and County pool allocation, experienced growth during this period. This growth was primarily driven by increased online sales due to statewide shelter-in-place mandates and a heightened demand for computer and electronics equipment, reflecting the shift to remote work during the pandemic.

The California Department of Tax and Fee Administration (CDTFA) is responsible for administering the distribution of sales and use tax in California. Businesses in California must register for a sales tax permit, collect taxes from customers, and report their sales taxes accurately and timely. These taxes, along with information about their allocation to jurisdictions, are then forwarded to the CDTFA, which distributes them to the appropriate jurisdictions. Additionally, the CDTFA conducts audits on businesses to ensure compliance with tax laws and regulations. The City receives a share of the sales tax revenue generated within its boundaries, which funds a wide range of City services and programs.

Though this occurred in the second quarter of FY 2024-25, it is important to note that in October 2024, the City reached a settlement agreement with CDTFA following its appeal of CDTFA's audit findings, which concluded that sales and use tax revenues had been incorrectly allocated to the City. As a result of this settlement, the City has uncommitted \$74.5 million that had been reserved for a potential repayment of disputed sales tax funds. The City's forecast will be updated in the Mid-Year Financial Report to reflect any adjustments in estimated sales tax revenues resulting from the settlement.

Property Tax revenue came in \$1.3 million higher than estimated. In FY 2023-24, the City's property tax roll grew \$1.4 billion, or 4.57%, year-over-year, compared to 6.65% for the county. The bulk of the increase was due to increases in residential properties by \$1.3 billion, or 6.8%. This category makes up 62.4% of the net taxable value. Unsecured property tax increased by \$76 million, or 7.1%. This category makes up 3.5% of the net taxable value. Lastly, commercial property values decreased by \$91.5 million, or 1%. This category makes up 28.3% of the net taxable value.

Transient Occupancy Tax (TOT) revenue came in \$1.0 million lower than estimated due to less travel than expected.

Utility Tax revenues remained in line with estimated amounts.

Franchise Fees came in \$0.9 million higher than budgeted due to increases in revenues received for Recology and PG&E.

Other Taxes revenues came in \$4.3 million lower than estimated primarily due to Housing Mitigation fees. This is primarily due to certain developments that have not yet reached the permit submittal phase. As these developments progress, the Housing Mitigation fees will be collected.

Licenses and Permits are \$29.6 million lower than budgeted primarily due to the carryover of Vallco Town Center plan check and building inspection revenues. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

Use of Money and Property came in \$11.2 million higher because of increases in the market values of the City's fixed-income and Section 115 Trust investment portfolios. At the end of the fiscal year, the values of the City's investments are adjusted to reflect the year-end market value. The market value of fixed-income investment fluctuates depending on interest rates. When interest rates increase after an investment is purchased, the market value of the investment decreases. However, when interest rates decrease after an investment is purchased, the market value of the investment increases. At the time of purchase, the City intends to hold investments until maturity, so changes in market value do not affect the City's investment principal. The gain or loss will only be realized if the City sells its investments before maturity.

Intergovernmental revenue came in \$1.7 million lower due to the anticipated receipt of a state grant and federal grant in addition to revenues from the Transportation Development Act (TDA) Article 3 Program related to the city's Bike Plan projects that were expected to be received in FY 2023-24. The TDA3 funding expired on June 30, 2024. VTA reallocated the funding as Measure B, to be addressed through an amendment to the City's existing Measure B funding agreement.

Charges for Services came in \$2.1 million lower due to the carryover of Vallco Town Center engineering fees. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

Fines and Forfeitures remained in line with estimated amounts.

Miscellaneous revenues came in \$0.7 million lower than budgeted primarily due to an outstanding reimbursement request from the Section 115 OPEB Trust for retiree health expenses in FY 2021-22 and FY 2022-23. This trust was set up by the City in FY 2009-10 to support its Other Post-Employment Benefits (OPEB) obligations. The Section 115 OPEB Trust is solely designated for retiree health costs, and the funds can be used to pay the benefits administrator or to reimburse the City for OPEB Plan benefits and costs. This outstanding reimbursement request is offset by

revenues not originally anticipated in FY 2023-24 but were received from a litigation settlement and Municipal Solid Waste processing funds related to Resource Recovery.

Transfers In revenues remained in line with estimated amounts.

Other Financing Sources came in lower than estimated due to the timing of refundable deposit revenues received.

Expenditures

The City is expected to end FY 2023-24 with total expenditures of \$121.8 million, which is \$16.9 million lower than budgeted. This is due to various savings achieved over several expense categories, as shown in the following table and described further below.

FY 2023-24 Year End Actuals versus Amended Budget by Expense Category

Expenditure Category	Amended	Actual	Variance (\$)	Variance (%)
	Budget	Expenditures		
05 - Employee compensation	30,293,262	26,716,216	(3,577,046)	-12%
10 - Employee benefits	14,884,120	13,622,990	(1,261,130)	-8%
15 - Materials	9,151,559	7,695,353	(1,456,206)	-16%
20 - Contract services	36,804,148	31,547,606	(5,256,542)	-14%
25 - Cost allocation	12,475,250	12,475,250	-	0%
30 - Capital outlays	11,199,809	8,767,797	(2,432,012)	-22%
31 - Special projects	6,200,635	4,901,006	(1,299,629)	-21%
35 - Contingencies	303,066	5,732	(297,334)	-98%
40 - Debt services	2,677,600	2,677,600	-	0%
45 - Transfer out	12,207,553	12,207,553	-	0%
50 - Other financing uses	2,514,987	1,214,762	(1,300,225)	-52%
Total	\$ 138,711,989	\$ 121,831,865	\$ (16,880,124)	-12%

Salaries and Benefits were lower than budgeted due to staff vacancies.

Materials came in lower than budgeted due to savings in water service costs for various City facilities. There was also a reduction in various discontinued software applications as well as negotiated lowered costs with various software vendors. Grant expenditures for CDBG Capital/Housing projects came in under budget due to the Senior Center Fire Sprinkler System Replacement project still under design review. There was also a Citywide reduction in expenses related to general supplies.

Contract Services were lower than budgeted due to savings in Resource Recovery, BMR affordable housing fund, and various contracts related to Parks and Recreation programs and the City Attorney’s Office.

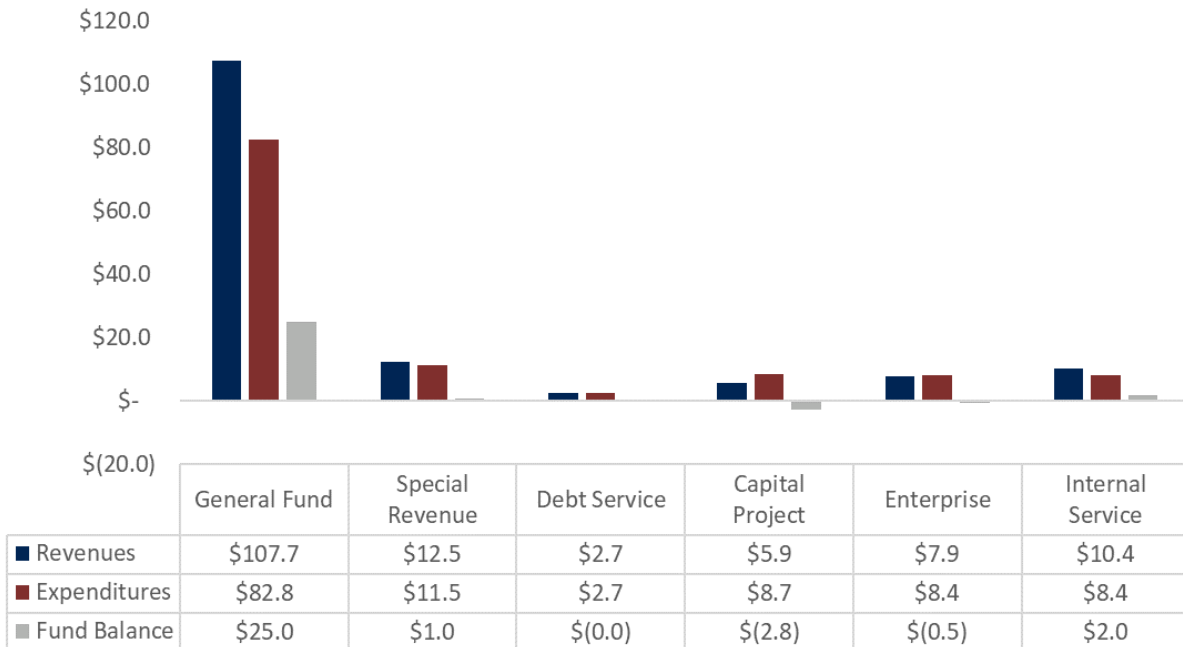
Capital Outlays and Special Projects came in lower primarily due to project completion and fixed asset cost capitalization.

Contingencies were lower than budgeted due to departments having sufficient appropriations.

Other Financing Uses were lower than budgeted due to decreased use of on-call contracts and a decrease in costs related to depreciation expenses

The table below compares actual revenues and expenditures and the resulting changes to fund balance effective as of FY 2023-24 year-end.

FY 2023-24 Year-End Estimates (\$ in millions)



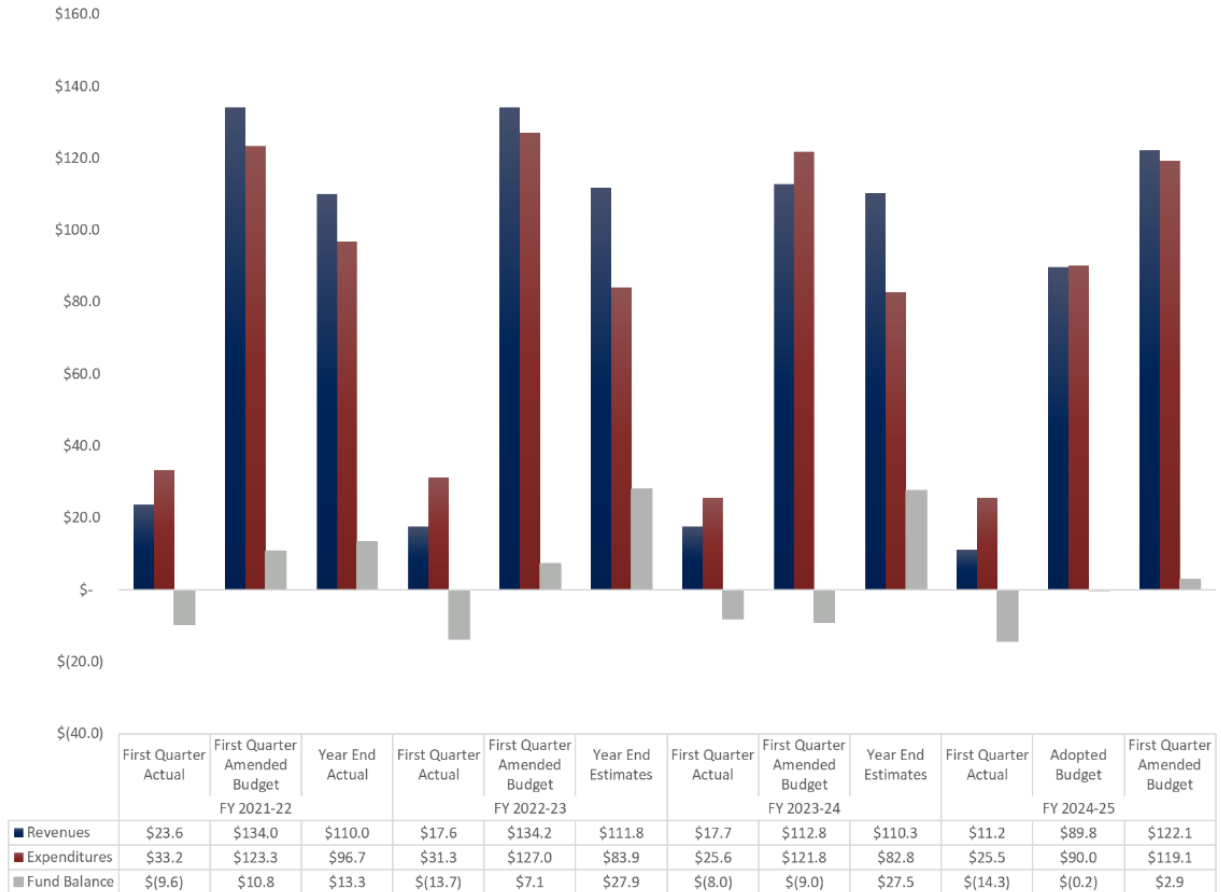
FY 2024-25 First Quarter Update

General Fund

The General Fund's historical revenues, expenditures, and fund balance demonstrate that amended expenditures have often exceeded amended revenues, leading to the use of fund balance. However, it was not due to a structural deficit but the transfer of excess fund balance from the General Fund to the Capital Reserve per the City's use of one-time funds policy. Due to

the City's encumbrance and budget carryover process, fiscal years have generally ended with increases in fund balance. The following table shows a 4-year comparison of revenues, expenditures, and changes to fund balance.

4-Year Comparison of Revenues, Expenditures, and Changes to Fund Balance (\$ in millions)



The General Fund's historical financial data indicates that amended expenditures have often exceeded amended revenues, leading to a decrease in fund balance. However, when we look at actual revenues and expenditures, we have historically seen an increase to fund balance.

By continuing to monitor and manage its financial resources effectively, the City can ensure that it maintains an appropriate fund balance in the General Fund.

Revenues

As of the first quarter, total revenue is \$11.2 million, which is \$6.5 million, or 37%, lower than last year. This decrease is primarily due to a shift in the accounting methods used for financial

reporting: while year-end financials will continue to use modified and full accrual accounting in accordance with generally accepted accounting principles, interim reports will now follow a cash basis. This change improves accuracy in reflecting actual cash flows during the fiscal year but may make comparisons to FY 2023-24 reports challenging. However, reporting will be consistent on a cash basis in future fiscal years. This change predominantly affects sales tax, transient occupancy tax, and use of money and property, which show temporary decrease due to the reporting adjustment.

The following table shows the differences between General Fund revenues collected as of the first quarter in the current fiscal year and the prior fiscal year.

**Comparison of FY 2023-24 First Quarter Revenue to FY 2024-25
General Fund**

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
05 - Sales tax	10,093,439	2,733,793	(7,359,646)	-73%
10 - Property tax	54,731	40,983	(13,748)	-25%
15 - Transient occupancy	1,544,806	633,478	(911,328)	-59%
20 - Utility tax	600,139	742,741	142,602	24%
25 - Franchise fees	220,813	209,378	(11,435)	-5%
30 - Other taxes	326,683	386,216	59,533	18%
35 - Licenses and permits	961,174	1,474,379	513,205	53%
40 - Use of money and property	816,272	156,159	(660,114)	-81%
45 - Intergovernmental revenue	150,961	12,718	(138,243)	-92%
50 - Charges for services	2,830,640	3,344,982	514,342	18%
55 - Fines and forfeitures	23,082	40,478	17,396	75%
60 - Miscellaneous	40,704	105,119	64,415	158%
65 - Transfers in	15,000	15,000	-	0%
70 - Other financing sources	0	1,330,326	1,330,326	-
Total	\$ 17,678,443	\$ 11,225,749	\$ (6,452,694)	-37%

Sales Tax revenue received in the first quarter was \$7.4 million, or 73%, lower than last year. Sales tax revenues are received two months in arrears, so this figure reflects sales tax collections for July 2024 (FY 2024-25), compared to July through September 2023 for FY 2023-24. Additionally, the \$2.7 million includes full recognition of revenue from sales tax distributions during the quarter. Staff is currently working with CDTFA and the taxpayer to accurately reclassify Q1 sales tax revenues, with the adjustment to be reflected in the Mid-Year Financial Report.

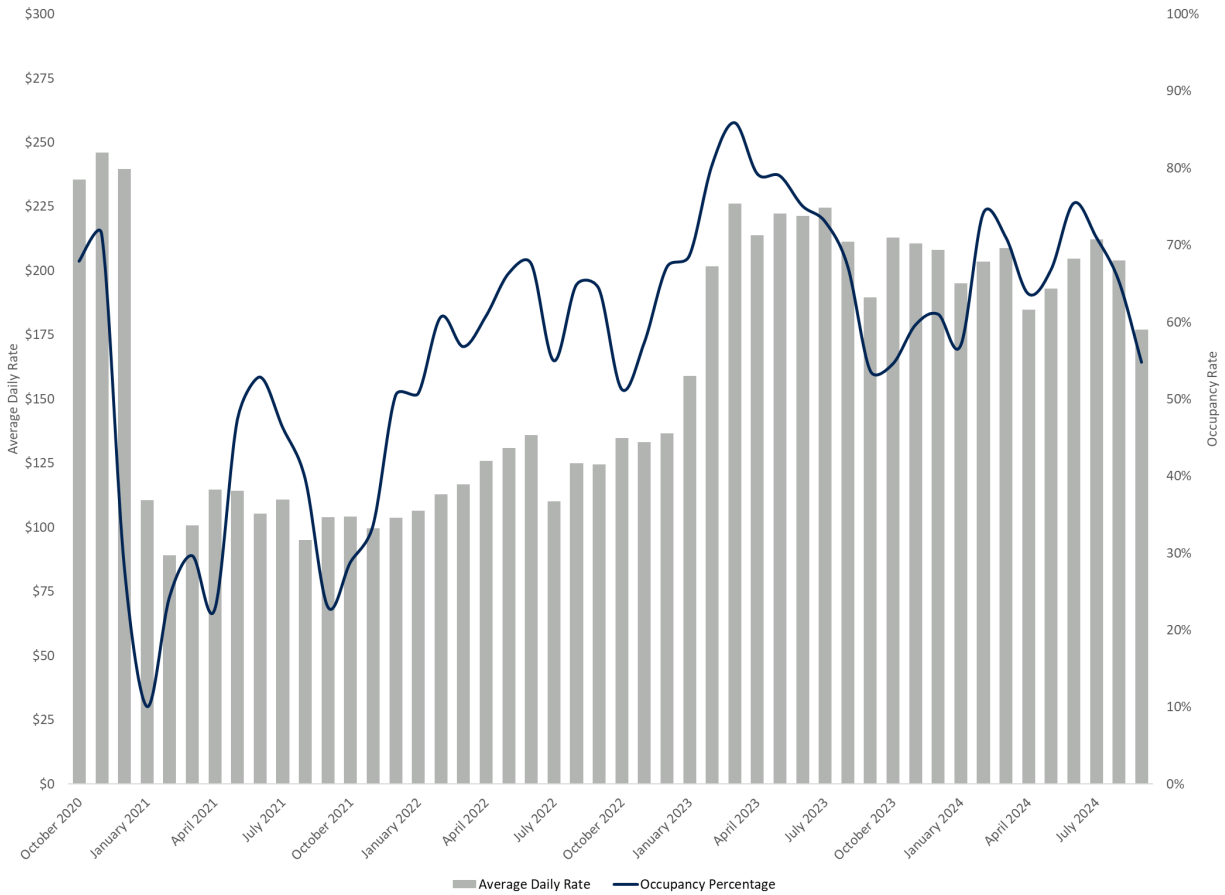
Property Tax revenue is lower than last year by approximately \$14,000, or 25%, due to a decrease in supplemental property tax. According to the HdL, the City’s property tax consultant, the citywide growth in value in the 2024-25 assessment roll is \$1.412 billion, an increase of 4.4%. With the first 7 months of sales data processed for 2024, Single Family Residentials are selling for 4.57% less than in the previous calendar year. Prices for the full calendar year 2023 increased 10.24%. Prices are still being driven by higher interest rates and fewer properties being offered for sale.

The City’s property tax base remains strong and HdL is currently projecting property taxes over the next five years as shown in the table below.

FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
31,223,141	32,324,317	33,606,651	35,024,886	36,531,087

Transient Occupancy Tax (TOT) revenue decreased by \$0.9 million, or 59%, compared to the previous year due to decreased travel, and is still lower than pre-pandemic levels. The average daily rates and occupancy rates for hotels are now closer to pre-pandemic levels, as shown in the table below.

Average Daily Rates and Occupancy Rates by Month Hotels in Cupertino



Although TOT revenues have mostly recovered from the pandemic, the City's TOT revenues may continue to be affected in the long term due to telework and decreased business travel. Headwinds in the tech industry have resulted in layoffs and reduced spending in areas such as travel. Staff will continue to monitor economic regulations and other factors and report back on their impact on TOT revenues as part of the quarterly financial reports.

Utility Tax increased by approximately \$143,000, or 24%, primarily due to an increase in the amount of UUT collected based on higher gross receipts compared to the same period in the prior year.

Franchise Fees decreased by approximately \$11,000, or 5%, representing nominal change from the same period in the prior year.

Other Taxes increased by \$60,000 or 18%, primarily due to increases in revenues received for property transfer taxes and the collection of business license taxes.

Licenses and Permits increased by approximately \$513,000 or 53%, due to increases in revenues received for building inspections and construction plan check permit fees.

Use of Money and Property decreased by approximately \$660,000, or 81%, due to decreased investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

Intergovernmental Revenue decreased by approximately \$138,000, or 92%, due to revenues received in the same period last year for a state mandate reimbursement and state grant for sheriff's contract.

Charges for Services increased by approximately \$514,000, or 18%, due to increases in cost allocation plan methodology and current planning fees.

Fines and Forfeitures increased by \$17,000, or 75%, due to an increase in revenues related to parking fines compared to the same period last year.

Miscellaneous Revenue increased by approximately \$64,000, or 158% due to revenues received from a new Technology fee assessed on permits created in FY 2024-25.

Transfers In are in line with estimated dollars.

Other Financing Sources increased by \$1.3 million due to revenues received from the Byrne property transaction.

Staff will continue to monitor all revenue categories and make any necessary adjustments to revenue projections as part of the Mid-Year Financial Report.

Expenditures

General Fund expenditures are down \$127,000, or 0%, when compared to the same time last year. The following table shows the differences between General Fund expenditures as of the first quarter in the current fiscal year and the prior fiscal year:

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures
General Fund**

Expenditure Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
05 - Employee compensation	4,963,883	4,850,724	(113,158)	-2%
10 - Employee benefits	2,124,850	2,323,956	199,105	9%
15 - Materials	1,318,427	1,724,239	405,812	31%
20 - Contract services	7,591,224	6,383,722	(1,207,502)	-16%
25 - Cost allocation	2,564,414	2,659,645	95,231	4%
30 - Capital outlays	282,142	12,487	(269,654)	-96%
31 - Special projects	301,497	81,575	(219,921)	-73%
35 - Contingencies	-	-	-	0%
45 - Transfer out	6,457,600	7,349,598	891,998	14%
50 - Other financing uses	38,225	129,249	91,024	238%
Total	\$ 25,642,260	\$ 25,515,195	\$ (127,065)	0%

Salaries have decreased by \$113,000, or 2%. This decrease in compensation is primarily due to staff vacancies. However, benefits have increased by \$199,000, or 9%. This increase in benefits is due to higher costs in health insurance and CalPERS' Unfunded Accrued Liability (UAL).

Materials costs have increased by approximately \$406,000, or 31%, primarily due to an increase in Information & Technology software, Public Work electricity and water costs.

Contract Services have decreased by approximately \$1.2 million, or 16%, primarily due to the timing of expenses for the City's law enforcement contract with the Santa Clara County Sheriff's Office. To provide some context, FY 2023-24 First Quarter Law Enforcement contract invoices correspond to July – September 2023, while FY 2024-25 First Quarter Law Enforcement contract invoices correspond to July and August 2024. September invoices were paid in October 2024, which will be reflected in the Mid-Year Financial Report.

Cost Allocation increased by approximately \$95,000, or 4%, primarily due to increased Information and Technology costs.

Capital Outlay costs decreased by \$270,000, or 96%, mainly due to decreased capitalizable facilities costs.

Special Projects decreased by \$220,000, or 73%, due to fluctuations in one-time expenditures.

Contingencies remained unchanged from the same time last year.

Transfers Out increased by \$892,000, or 14%, due to the reduction of transfers as an expenditure reduction strategy. Interfund transfers are the movement of cash between one or more funds. As part of the Adopted Budget process, transfers from the General Fund to other City funds serve as operating subsidies to ensure each fund has a positive fund balance at the end of the fiscal year.

Other Financing Uses increased by \$91,000, or 238%, due to a higher volume of refundable deposit on-call contracts in the Community Development Department contracts for plan reviews and inspections.

Special Revenue Funds

Revenue

Special Revenue Funds revenue is \$152,000, or 4%, lower than the same time last year primarily due to a decrease in park dedication fees as shown in the following table.

Comparison of FY 2023-24 and FY 2024-25 Special Revenue Funds First Quarter Revenues

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
30 - Other taxes	145,331	33,638	(111,693)	-77%
40 - Use of money and property	177,834	2,105	(175,729)	-99%
45 - Intergovernmental revenue	542,614	647,056	104,442	19%
50 - Charges for services	61,181	50,845	(10,336)	-17%
55 - Fines and forfeitures	156	-	(156)	-100%
60 - Miscellaneous	-	200	200	N/A
65 - Transfers in	2,500,000	2,541,580	41,580	2%
Total	\$ 3,427,116	\$ 3,275,424	\$ (151,692)	-4%

Other Taxes decreased by approximately \$0.1 million, or 77%, primarily due to decreased park dedication fees received in the first quarter.

Use of Money and Property decreased by approximately \$0.2 million, or 99% due to a decrease in investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

Intergovernmental Revenue increased by approximately \$0.1 million, or 19%, due to a county grant received for homelessness support and increased gas tax and SB1 funds received.

Charges for services decreased by approximately \$10,000, or 17%, primarily due to revenue received in the prior first quarter period for a traffic impact fee.

Fines and forfeitures remained relatively unchanged from the same time last year.

Transfers In remained relatively unchanged from the same time last year.

Expenditures

Special Revenue Funds expenditures are \$0.6 million, or 32%, lower than the same time last year due primarily to decreases in contract services, capital outlays, and special projects offset by an increase in cost allocation as shown in the following table.

Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures

Expenditure Category	Special Revenue Funds		Variance (\$)	Variance (%)
	First Quarter 2024	First Quarter 2025		
05 - Employee compensation	378,164	352,677	(25,487)	-7%
10 - Employee benefits	173,642	192,968	19,326	11%
15 - Materials	71,427	66,666	(4,762)	-7%
20 - Contract services	360,866	177,773	(183,093)	-51%
25 - Cost allocation	305,154	507,514	202,360	66%
30 - Capital outlays	392,497	48,387	(344,110)	-88%
31 - Special projects	309,634	6,635	(303,000)	-98%
35 - Contingencies	-	-	-	N/A
45 - Transfer out	15,000	15,000	-	0%
Total	\$ 2,006,384	\$ 1,367,618	\$ (638,766)	-32%

Salary remained relatively unchanged from the same time last year. *Benefits* increased due to higher health insurance and CalPERS' Unfunded Accrued Liability (UAL).

Materials decreased by approximately \$5,000, or 7% primarily due to the timing of a BMR program administrator invoice payment offset by an increase in street sign expenditures.

Contract Services decreased by approximately \$183,000, or 51%, primarily due to a decrease in street pavement maintenance.

Cost Allocation increased by approximately \$200,000, or 66% due to an increase in Human Resources, Finance, and City Manager cost allocations.

Capital Outlays decreased by approximately \$344,000, or 88%, due to the Memorial Park Pond Repurposing and the Pumpkin/Fiesta Storm Drain projects, and street pavement maintenance utilizing SB1 funds account in FY2023-24.

Special Projects decreased by approximately \$300,000, or 98%, due to a decrease in the Annual Asphalt project and Annual Sidewalk, Curb, & Gutter project as well as a rover camera system purchased in prior year first quarter.

Transfers Out remained relatively unchanged from the same time last year.

Debt Service Funds

Revenue

Debt Service Funds revenue is similar to last year as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Revenues
Debt Service Funds**

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
65 - Transfers in	2,677,600	2,676,200	(1,400)	0%
Total	\$ 2,677,600	\$ 2,676,200	\$ (1,400)	0%

Expenditures

Debt Service Funds expenditures are the same as last year as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures
Debt Service Funds**

Expenditure Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
40 - Debt services	-	-	-	N/A
Total	\$ -	\$ -	\$ -	N/A

Capital Projects Funds

Revenue

Capital Projects Funds revenue is higher than last year due to increased transfers to fund capital projects from the capital reserve as shown in the following table.

Comparison of FY 2023-24 and FY 2024-25 First Quarter Revenues

Capital Projects Funds

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
45 - Intergovernmental revenue	47,700	-	(47,700)	-100%
50 - Charges for services	-	-	-	N/A
65 - Transfers in	2,918,766	7,785,000	4,866,234	167%
Total	2,966,466	7,785,000	4,818,534	162%

Expenditures

Capital Projects Funds expenditures increased by \$5.8 million, or 176% due to increased transfers from the capital reserve to fund capital projects and increased expenditures for capital projects as shown in the following table.

Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures

Capital Projects Funds

Expenditure Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
20 - Contract services	16,483	-	(16,483)	-100%
30 - Capital outlays	359,784	532,738	172,954	48%
45 - Transfer out	2,918,766	8,547,580	5,628,814	193%
Total	\$ 3,295,033	\$ 9,080,318	\$ 5,785,285	176%

Enterprise Funds

Revenue

Enterprise Funds revenue remained relatively unchanged from the same time last year as shown in the following table.

Comparison of FY 2023-24 and FY 2024-25 First Quarter Revenues

Enterprise Funds

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
40 - Use of money and property	157,623	26,597	(131,025)	-83%
45 - Intergovernmental revenue	-	-	-	N/A
50 - Charges for services	1,803,704	1,373,150	(430,554)	-24%
65 - Transfers in	-	514,000	514,000	N/A
Total	\$ 1,961,327	\$ 1,913,747	\$ (47,580)	-2%

Use of Money and Property decreased by \$131,000, or 83%, due to summer tennis court rent received in October in FY 2024-25 while it was received in first quarter last fiscal year and a decrease in

investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

Charges for services decreased by \$431,000, or 24%, primarily due to decreased revenues from the Sports Center tennis program from a change in the contract agreement where the contractor collects payment directly from the customers.

Transfers In increased by \$0.5 million, or 100%, due to increased transfers from the General Fund.

Expenditures

Enterprise Funds expenditures are \$186,000, or 10%, lower than the same time last year due primarily to decreases in contract services offset by an increase in cost allocation as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures
Enterprise Funds**

Expenditure Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
05 - Employee compensation	430,632	445,452	14,819	3%
10 - Employee benefits	132,996	174,719	41,723	31%
15 - Materials	82,088	122,926	40,837	50%
20 - Contract services	1,041,944	550,360	(491,583)	-47%
25 - Cost allocation	234,840	394,358	159,518	68%
30 - Capital outlays	13,995	-	(13,995)	-100%
31 - Special projects	15,556	78,298	62,742	403%
Total	\$ 1,952,051	\$ 1,766,112	\$ (185,938)	-10%

Salary and Benefits increased by approximately \$57,000, or 10%, primarily due to higher costs in health insurance and CalPERS' Unfunded Accrued Liability (UAL).

Materials increased by approximately \$41,000, or 50%, primarily due to a resource recovery software purchase and food recovery program expense.

Contract Services decreased by approximately \$0.5 million, or 47%, primarily due to a decrease in the Sports Center tennis program expense from a change in the contract agreement where the contractor collects payment directly from the customers.

Cost Allocation increased by approximately \$160,000, or 68%, primarily due to increased City Manager and Finance CAP charges.

Capital Outlays decreased by \$14,000, or 100%, due to the sports center restroom floor replacement project in FY 2023-24.

Special Projects increased by approximately \$63,000, or 403%, due to projects that differ in scope and timing from year to year.

Internal Service Funds

Revenue

Internal Service Funds revenue increased by \$1.2 million, or 52%, higher than the same time last year due to increases in transfers in and charges for services as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Revenues
Internal Service Funds**

Revenue Category	First Quarter 2024	First Quarter 2025	Variance (\$)	Variance (%)
40 - Use of money and property	41,679	(3,711)	(45,390)	-109%
50 - Charges for services	1,034,415	1,195,727	161,312	16%
65 - Transfers in	1,280,000	2,380,398	1,100,398	86%
Total	\$ 2,356,094	\$ 3,572,414	\$ 1,216,320	52%

Use of Money and Property decreased by approximately \$45,000, or 109% due to a decrease in investment earnings. Changes to investment is due to a change in accounting to align with best practices. Balances will continue to flow and are anticipated to end within projections.

Charges for Services increased by \$161,000, or 16%, due to increased I&T CAP.

Transfers In increased by \$1.1 million, or 86%, due to increased transfers from the General Fund to the Compensated Absences and Retiree Medical Funds offset by a decreased transfer to Innovation & Technology.

Expenditures

Internal Service Funds expenditures increased by \$0.2 million, or 10%, higher than the same time last year due primarily to increases in special projects as shown in the following table.

**Comparison of FY 2023-24 and FY 2024-25 First Quarter Expenditures
Internal Service Funds**

Expenditure Category	First Quarter	First Quarter	Variance (\$)	Variance (%)
	2024	2025		
05 - Employee compensation	432,040	370,972	(61,068)	-14%
10 - Employee benefits	502,306	520,715	18,409	4%
15 - Materials	173,587	123,731	(49,856)	-29%
20 - Contract services	479,609	538,673	59,065	12%
25 - Cost allocation	14,406	76,115	61,709	428%
31 - Special projects	28,562	167,444	138,882	486%
Total	\$ 1,630,510	\$ 1,797,650	\$ 167,140	10%

Salary decreased by \$61,068, or 14% due to staff vacancies. *Benefits* increased by \$18,409, or 4% due to higher costs in health insurance and CalPERS' Unfunded Accrued Liability (UAL).

Materials decreased by \$50,000, or 29%, mainly due to decreases in Innovation & Technology software expenditures.

Contract Services increased by \$59,000, or 12%, largely due to increases in Innovation & Technology cybersecurity services.

Cost Allocation increased by \$62,000, or 428%, mainly due to IT reimbursement.

Special Projects increased by \$139,000, or 486%, due to projects that differ in scope and timing from year to year.

Budget Adjustment Requests

As of the first quarter, departments are requesting budget adjustments to ensure they end the year within budget appropriations. The budget adjustment requests are summarized in the table below.

Fund	Department	Revenue	Expenditure	Change in Fund Balance	Proposal
GENERAL FUND					
100 General Fund	Admin Services	-	50,000	(50,000)	Chief Negotiator for successor agreements
100 General Fund	Admin Services	-	75,000	(75,000)	General Liability potential settlement costs
100 General Fund	Admin Services	-	10,000	(10,000)	American Sign Language Translation Services
100 General Fund	Innovation & Technology	-	314,998	(314,998)	Correctly allocate deleted IT Manager (see reduction in internal service funds)
100 General Fund	Public Works	-	36,822	(36,822)	Purchase of a new bio holding tank
100 General Fund	Public Works	-	25,000	(25,000)	Replace structural column and foundation at materials bunker
100 General Fund	Public Works	-	24,490	(24,490)	Replace leaking fire hydrant at creekside
100 General Fund	Public Works	-	41,246	(41,246)	Purchase of spot cooler and emergency rental costs
TOTAL GENERAL FUND		-	577,556	(577,556)	
SPECIAL REVENUE FUNDS					
260 Community Development Block Grant	Community Development	-	53,570	(53,570)	Develop the 2025-2030 Consolidated Plan
TOTAL SPECIAL REVENUE FUNDS		-	53,570	(53,570)	
INTERNAL SERVICE FUNDS					
610 Innovation & Technology	Innovation & Technology	-	(314,998)	314,998	Correcting position elimination
610 Innovation & Technology	Innovation & Technology	-	15,000	(15,000)	Overtime
TOTAL INTERNAL SERVICE FUNDS		-	(299,998)	299,998	
TOTAL ALL FUNDS \$		-	\$ 331,128	\$ (331,128)	

Administrative Services

Human Resources (100-12-632)

Chief Negotiator

This item was not included as part of the FY 2024-25 Adopted Budget and is required as the City will be negotiating successor labor contracts this fiscal year.

Insurance Administration (100-44-417)

Potential General Liability Settlement Costs

Additional funds are requested in anticipation of potential settlement and litigation costs associated with general liability claims that may arise during this fiscal year.

Administration (100-40-400)

American Sign Language Services

To ensure that there is access to communicate with, receive information from, and convey information to individuals who have communication disabilities when having in-person meetings. The Americans with Disabilities Act (ADA) requires state governments, local governments, and businesses and nonprofit organizations that serve the public to take steps to enable effective communication with people who are deaf or hard of hearing. Prior year costs have been minimal and absorbed within existing appropriations. The city has had to switch vendors due to a lack of available services and the increased costs cannot be funded within appropriations.

Community Development

Community Development Block Grant (CDBG)

Develop the 2025-2030 Consolidated Plan

The City is contracting with Root Policy Research, Inc. to develop the 2025-2030 Consolidated Plan, a mandatory 5-year long-range plan that determines the Cities priorities for federal funding from the Department of Housing and Urban Development, based on emerging housing, economic, and demographic trends and community outreach. All cities who wish to receive federal funding must complete a Consolidated Plan.

Innovation and Technology

Application (100-32-305) and GIS (610-35-986)

In the FY 2024-25 budget, the IT Department planned to reduce one manager position because of an internal promotion. At the time the budget was finalized, the specific position to be reduced had not been identified. Budget staff initially reduced a position within the Applications team, though the actual reduction occurred in GIS. This request reassigns the funds back to the Applications position and removes them from the GIS fund to ensure alignment with the correct budget source.

Infrastructure (610-34-310)

Overtime is incurred from time to time throughout the year to properly support, troubleshoot, and maintain the City's Applications and in house solutions. To minimize the impact on City operational functions, certain workloads are done during business off-hours which may incur overtime work. Overtime has not historically been budgeted but is being added now to reflect estimated costs.

Public Works Department

Environmental Materials (100-85-850)

New Bio Holding Tank

The service center equipment and vehicle wash station bio holding tank has corrosion and significant water leakage. This system is approximately fifteen years old and the tank is at the end of its service life. Funding this request will allow for the purchase of a new epoxy lined bio holding tank and installation.

Service Center Administration (100-83-807)

Replace Structural Column and Foundation at Materials Bunker

The steel structural column on the materials bunker at the Service Center needs to be replaced. The 1 funding will be used to replace the structural column and foundation.

Creekside Parks Maintenance (100-87-837)

Fire Hydrant Replacement

The fire hydrant is leaking from underground at Creekside. This proposal replaces the underground isolation valve, piping, and hydrant. This will ensure that all major underground components are new and will work as intended during emergency and routine maintenance.

Quinlan Community Center Maintenance (100-87-830) and McClellan Ranch Maintenance (100-87-832)

Purchase and Rental of Spot Coolers

At the Environmental Education Center at McClellan Ranch (EEC), the radiant heating and cooling system failed, affecting temperature regulation for visitors and housed wildlife.

At Quinlan Community Center, a building chiller went down, disrupting cooling for half of the building, which serves as a cooling station for residents.

During a summer heatwave, multiple building cooling systems failed, leading to the rental of spot coolers to maintain acceptable temperatures. After assessing the situation, it was deemed more fiscally responsible to purchase eight spot coolers rather than continue with rentals.

Request includes costs of rental to date (\$5,348) and the purchase of multiple building cooling systems (\$35,898).

The chiller at Quinlan Community Center will be repaired using existing budget allocation in the Capital Improvement Plan for Facilities Condition Assessments.

Fund Balance

The General Fund's estimated ending fund balance, unaudited for FY 2023-24 is \$163.5 million. An increase from estimated year end fund balance from FY 2024-25 Final Budget and the October 15, 2024, uncommitting of sales tax repayment reserve council item of \$12.8 million. This increase is primarily due to the prior year ending with expenditure savings that outpaced revenue decreases. Expenditures savings were primarily because of salary and contract savings along with increased revenues.

As of first quarter, staff anticipates the General Fund will end FY 2024-25 with \$166 million in fund balance. It's important to note that the only portion available for use, according to City policy, is unassigned funds. Committed funds, are set aside for specific purposes determined by City Council resolution. Restricted funds, such as the Section 115 Pension Trust, are allocated for specific purposes stipulated by external resource providers. Assigned funds are reserved for encumbrances. Of the total fund balance, \$96.2 million is unassigned and available to be used. Options for allocating those unassigned funds will be presented to City Council for their consideration this evening.

Approximately \$10.7 million of unassigned fund balance is attributed to Vallco Town Center plan check and building inspection revenues that were carried over. These revenues will continue to be carried over each year until the services are rendered, and the revenues are recognized.

On October 10, 2023, the City established a committed Sales Tax Repayment Reserve with an initial allocation of \$56.5 million. This reserve is designed to address a potential adverse CDTFA decision and the uncertain outcome of the anticipated legal challenge. This reserve was later increased to \$74.5 million to account for revenue through the end of FY 2023-24. These funds were uncommitted in October 2024 after the City settled with the CDTFA. Allocation options for these dollars will be heard later this evening as part of the One-Time Funds Allocation Plan. Committed fund balance, as described on page 165 of the FY 2023-24 and FY 2024-25 Adopted Budgets, “include amounts that can only be used for the specific purposes determined by formal action of the City’s highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (resolution) that imposed the constraint originally.”

General Fund Classification of Fund Balance (\$ in millions)

Classification	Actual 2022-23	Year End Projection 2023-24	Adopted Budget 2024-25	1st Quarter Year End Projection 2024-25
Non Spendable	\$ 0.9	\$ 0.9	\$ 0.4	\$ 0.9
Restricted	20.7	20.7	20.7	20.7
Committed	34.1	108.6	99.0	31.1
Assigned	9.7	4.7	7.0	7.0
Unassigned	73.1	28.5	23.6	106.2
TOTAL FUND BALANCE	\$ 138.6	\$ 163.5	\$ 150.8	\$ 166.0

To date, the City’s external auditors have not completed their review of the City’s financials. Revenue, expenditure, and fund balance totals listed in this report are preliminary and subject to change after a full review by the City’s auditors. City Staff does not anticipate many, if any, changes to these figures.

Per the City’s Fund Balance Policy, unassigned fund balance over \$500,000 is to be used in the following order to replenish committed/restricted fund balances with any remaining balances to be placed in the Capital Reserve:

1. Economic Uncertainty Reserve
2. CalPERS Reserve (Section 115 Pension Trust)
3. Sustainability Reserve
4. Unassigned

As of first-quarter, all priority areas are fully funded.

Staffing

As of September 30, 2024, the FY 2024-25 Amended Budget includes a total of 207 full-time equivalent (FTE) positions. No additional full-time equivalent are requested as part of this First Quarter Financial Report; however, the One-Time Funds Allocation Plan item that will be heard at this meeting will request one new limited term position along with three new classifications that will not result in additional full-time equivalent positions.

City Manager Discretionary Fund

In the FY 2024-25 Adopted Budget, City Council approved \$50,000 in funding for the City Manager Discretionary Fund. The quarterly financial reports will detail the City Manager's use of the discretionary fund and may include recommendations to replenish depending on the extent and nature of use. As of September 30, 2024, the City Manager's Discretionary Fund has not been used. However, it is anticipated one-time costs for an encampment cleanup at Lawrence Mitty Park will utilize these funds. Unhoused expenses have historically been funded in the City Manager's Office, however as part of Fiscal Year 2025-26 Proposed Budget, staff will recommend creating a budget for unhoused activities for transparency and tracking. There is also non-general fund dollars to cover dump truck and dump fees in resources recovery. The estimated expense in the City Manager contingency fund is \$12,892.

Carryovers and Budget Adjustments

The quarterly financial reports provide details on carryovers and budget adjustments. Encumbrances are outstanding commitments tied to unfilled purchase orders or contracts, which are rolled over to the following fiscal year until those obligations are fulfilled or terminated. Budget carryovers are unencumbered funds for unfinished projects carried over to the following fiscal year to be spent for the same purpose for which they were approved. Budget adjustments are amendments to the budget that are approved by Council via resolution. The amended budget is the adopted budget, plus encumbrances, budget carryovers, and Council-approved budget adjustments. See Attachment C for details on carryovers and budget adjustments.

Special Projects

The quarterly financial reports provide a status update on special projects including the budget, amount spent, and estimated completion date. Special projects are operational projects, often one-time, that are budgeted in separate accounts for transparency and ease of tracking. If a special project is not completed by the end of a fiscal year, staff may request a carryover to the subsequent fiscal year. Fixed assets have been removed from the list as they are not one-time special projects but the purchase of a fixed asset. Fixed assets are generally items over \$5,000 with a useful life of over 5 years or more. Similarly, the Tree Badges was removed from the list as it is now an ongoing operational item. See Attachments F & G.

Grants

The City entered into a contract with California Consulting in February 2019 to identify and apply for State and Federal grants on behalf of the City. The contract originated in Public Works and was transferred to Administrative Services in FY 2022-23. The goals of this pilot program were to centralize the grant function and to maximize grant opportunities. However, as part of a Citywide budget reduction strategy, the contract with California Consulting ended on June 30, 2023. With the elimination of this contract, departments are now responsible for identifying and applying for grants.

Staff provides updates on the status of grants as part of the quarterly financial reports. Throughout FY 2015-16 through FY 2024-25, the City applied for 43 competitive grants totaling \$54.5 million. To date, the City has been awarded \$32.4 million. Also, during FY 2021-22 through FY 2024-25 the City applied for 26 non-competitive grants totaling \$4.6 million. Due to the guaranteed funding each year, the Santa Clara County Permanent Local Housing Allocation (PLHA) Consortium grants have been moved from the competitive tracking list to the non-competitive tracking list.

As part of the remainder of the quarterly reporting on grants, staff will provide updates only on active grants and any completed projects for which funding is yet to be received. Active grants are grants that have not been fully closed out with the granting agency.

See Attachment H for further details on grants applied, pending, awarded, and not awarded.

Capital Improvement Program

The quarterly financial reports provide a revised estimate and update on Capital Improvement Program (CIP) projects. See Attachment I for further details.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The First Quarter Financial Report shows the City is positioned as anticipated. City staff recommends adjustments of \$331,128 in new appropriations, funded by one-time unassigned fund balance. Additional adjustments are being requested in the One-Time Allocation Plan item to be heard later this evening. The City will continue to monitor its revenue and expenditure trends closely to ensure it remains on track toward achieving its budgetary goals and objectives.

California Environmental Quality Act

Not applicable.

City Work Program (CWP) Item:

Not a CWP item.

CWP Item Description:

Not Applicable.

Council Goal:

Sustainability and Fiscal Strategy

Prepared by: Toni Oasay-Anderson, Senior Management Analyst
Janet Liang, Senior Management Analyst

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Tina Kapoor, Acting City Manager

Attachments:

A – Fiscal Year 2024-25 First Quarter Financial Report

B – Draft Resolution

C – Description of Carryovers and Adjustments as of September 30, 2024

D – Description of Budget Transfers as of September 30, 2024

E – First Quarter Recommended Budget Adjustments

F – FY 2023-24 Special Projects Update

G – FY 2024-25 First Quarter Special Projects Update as of September 30, 2024

H – Competitive and Non-Competitive Citywide Grants Tracking

I – FY 2024-25 First Quarter CIP Project Status